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The Rise of the Small Investor in the US and the UK, 1895 to 1970

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Abstract: The role of the small shareholder has been largely ignored in the literature, which has tended to concentrate on controlling shareholders and family ownership. And yet, focus on the importance of small shareholders can capture significant aspects of financial development, since the more 'confident' the minority shareholders, the easier will capital flow to firms. Pre 1970, debates and policy conflicts linked to stock exchange development concentrated on shareholder democracy and diffusion as key indicators. The number of shareholders relative to the population was seen as a critical factor in explaining not only structures in corporate finance but also political and economic preferences, market developments and overall economic development. This paper explores the so-called democratisation of investment and the factors behind it through the lens of trends in estimates of the UK and US shareholding populations between 1895 and 1970. It covers three key periods: before World War I, before and after the stock market crash of 1929, and post-World War II. It identifies three periods in the US when shareholder numbers were paramount: in the boom years of the 1920s, as part of the inquest into the 1929 Crash, and post-World War II in an attempt to boost stock market activity. In the UK, although some concern was expressed during the 1920s and 1930s at the passive nature of small investors, who held diversified portfolios with small amounts in each holding, it was the fear of nationalisation after World War II which led to more in-depth shareholder estimates.

[Draft: February 2016, forthcoming in *Enterprise and Society*]

1. Introduction

There is general agreement that the number of individual investors in financial securities grew on both sides of the Atlantic from the late nineteenth century onwards. This rise in the numbers of shareholders came to be called “people’s capitalism,” “shareholder democracy” and “democratisation of investment.”¹ The term ‘democratisation’ indicates diffusion of shareholdings and the rise in number of relatively small scale shareholders. The latter, the investors of ‘moderate means’ as Berle and Means put it many decades ago,² have always been at the core of financial discussions. Nevertheless, research on the size of shareholder populations in the UK and the US has been fragmented, with little overall or comparative perspective.³

Focus on the importance of small shareholders can capture significant aspects of financial development, since ‘confident’ minority investors are generally related with ease in capital raising by firms. Shifts in market participation rates are thus generally related to the number of listed firms and their size, the value of stock markets, and historical developments not only in corporate finance but also in the structure of stock exchange markets. This is why, before the 1970s, empirical research on financial development both in the UK and USA was mostly driven by attempts to quantify the extent of shareholder diffusion. In addition, empirical estimates of the extent of the ‘democratisation of investment’ were rooted in the debates and policy conflicts linked to the causes of stock exchange development.

The post-1980s-period has seen a dramatic growth in market capitalisations of stock markets in both more and less developed economies, while both shareholder and shareholding numbers are relatively well recorded.⁴ In this financial landscape, the effort involved in estimating the extent of shareholder diffusion and democratisation may seem redundant in the context of financial debates. This was not the case in the past. Understanding the size and nature of the shareholder population was seen as a key issue in the rather heated topic of the drivers of stock exchange financial development. The number of shareholders relative to the overall population of a country is (and was perceived as) a critical factor in explaining not only structures in

¹ For further discussion of this phenomenon in the US up to the 1929 Wall Street Crash, see Ott, *When Wall Street*. For discussion of the role of the New York Stock Exchange in encouraging small investors after World War II, see Traflet, *A Nation*.

² Berle and Means, *The Modern Corporation*, 63-8. The focus in more recent financial studies has gradually moved onto controlling shareholders and family ownership; see, for example, Cheffins, *Corporate Ownership*; Foreman-Peck and Hannah, “Some Consequences”; Musacchio and Turner, “Does the Law”, Lipartito and Morii, “Rethinking.”

³ Recent work by Julia Ott, *When Wall Street met Main Street*, on US shareholder democratisation in the 1920s and by Janice Traflet, *A Nation of Small Shareholders*, on shareholder democratisation post World War II, reflects increasing interest, in the US at least, on shareholder numbers rather than merely on controlling shareholders.

⁴ Stock Exchanges, such as the Nigerian, Shanghai and London Stock Exchanges all produce Fact Books which include information on their shareholder populations.

corporate finance but also political and economic preferences, market developments, and overall economic activity and welfare economics.⁵

This study offers a comprehensive review of the existing literature on the historical evolution of shareholder populations on both sides of the Atlantic from the end of the 19th century to 1970. The pulling together of available historical estimates of UK and US shareholder numbers, even though the estimates may only be approximations, allows us to identify significant differences in trends between the UK and the US over the period 1895 to 1970. Within the scope of this comparative study we also aim to highlight some important factors behind those trends not covered in the existing literature.⁶ Finally, this paper also explores what triggered the studies which produced these estimates of shareholder numbers, and how these estimates influenced the political and corporate governance debates of the day, such as those which followed in the wake of the Crash of 1929 in the US and after WWII in the UK.

In the UK, trends in share ownership, documented by Rutterford, Green, Owens and Maltby, have highlighted rising shareholder numbers from the 1870s to World War I, boosted by a growing financial press; a plethora of new issues; aggressive marketing by company promoters; extensive investor education; and access to a wide range of securities in both domestic and international concerns. Explanatory factors also include the development of diversified investment vehicles such as investment trusts, which blossomed in the UK from as early as the 1860s.⁷ In the US, commentators became aware of significant growth in shareholder numbers during the 1920s, a decade which saw campaigns by companies to encourage employees and customers to invest in their securities and a boom in investment trusts.⁸ Aggressive marketing campaigns in the 1920s and after World War II by brokerage firms and the New York Stock Exchange (NYSE) also helped to substantially boost US shareholder numbers, as did the promotion of investment trusts in the 1920s. In the UK by contrast, there were no major efforts to promote shareholder ‘democratisation’. Nor did the London Stock Exchange engage in

⁵ For example, Roe “Legal Origins”, Musacchio and Turner, “Does the Law”, and Foreman-Peck and Hannah, “Some Consequences” discuss these issues.

⁶ Recent research, such as La Porta et al, “Legal Determinants”; La Porta et al. “Law and Finance”; and La Porta et al. “Economic Consequences”, has proposed common law origins and real GDP per capita as two standard explanatory variables of share ownership. However, the first factor, common law origins, is unable to capture the different democratisation patterns between the UK and the US as both countries had common law systems. At the same time, real income growth is not always a reliable indicator of market democratisation. For instance, while US real incomes were squeezed more than Britain’s in the 1930s, US share ownership continued to outstrip the UK’s, both in absolute terms and as a percentage of the population. The differing share ownership trajectories between the UK and the US which are identified in the paper cannot be explained by wealth and market movements alone. There is significant space for additional explanatory factors.

⁷ Rutterford, “Learning from.”

⁸ For example, Warshow’s attempt to measure shareholder numbers (“The Distribution”) dates from 1924.

campaigns, as did the NYSE, to improve business for its broker members. It was not until the relatively low-key corporate-sponsored Wider Share Ownership campaign of the 1960s that, together with rising share prices, shareholder numbers increased.

Corporate, NYSE and member marketing strategies were behind a large part of US shareholder number growth, whereas the relative stagnation of UK shareholder numbers after 1914 can be explained by financial repression of government in terms of high taxation on investment income, capital and dividend controls, expropriation and nationalisation.⁹ The small shareholdings identified by commentators as evidence of the democratisation of capitalism in the UK can be attributed not to large numbers of individual investors but rather to fewer investors with more diversified portfolios, with the 'rentier' class retaining its grip on direct investment until selling out to investing institutions in the 1970s.

As well as exploring trajectories in shareholder numbers for the UK and the US, the paper also explores who the shareholders were, and whether the rhetoric of 'democratisation' was reflected in shareholder registers. Both countries did experience some shift from wealthy to less wealthy investors, particularly in the early twentieth century, but the major change in both countries was the rising importance of women investors in the market, outnumbering men by the 1940s and 1950s, in at least some types of investment. Although these investors did not have sufficient shareholdings to control the companies in which they invested, their sheer numbers and the factors they took into account when making investment decisions influenced the financial and corporate governance strategies of companies on both sides of the Atlantic.

The remainder of the paper explores trends and factors in shareholder numbers in the UK and the US during three distinct periods: before WWI, between the wars, and after WWII. It also discusses some of the challenges in the measurement of shareholder populations and possible related biases, particularly in earlier estimates. Despite these limitations, the numbers do provide evidence of trends over time and possible comparisons between the US and the UK.

2. Democratisation's first stage: pre-World War I

After the Companies Acts of 1856 and 1862 which facilitated the setting up of limited liability companies, the early investor "was wealthy, tended to confine his investments to two or three companies and was interested to a certain degree in the running of these companies."¹⁰ However, soon a wider potential pool of investors had

⁹ For example, forced sale of overseas securities, particularly those denominated in US dollars, by UK investors during World War I. See Morgan and Thomas, *The Stock Exchange*, 221.

¹⁰ Jefferys, *Trends*, 172-3.

access to information on potential investments. In Britain, from the railway boom of the 1840s onwards, investors could turn to newspapers or periodicals to have information on railway passenger numbers, reports of annual general meetings, new issue prospectuses and associated commentary. As the number of securities listed on the London Stock Exchange (LSE) increased, the number of financial periodicals grew – from 19 in 1874 to 109 in 1914 – boosted by cable communication, the growth in the number of limited liability companies and the increased demand for prospectus advertising.¹¹ One new issue, in 1899, for preference shares and debenture stock in a Thames ship-building company, received comment from no less than 48 national and regional newspapers.¹² But potential investors were not just targeted via the press. In 1870, Chadwicks, a firm of accountants based in Manchester, began a monthly newsletter to prospective investors in envelopes marked “private and confidential” inviting “friends” to subscribe to the new issues discussed. By 1878, it is estimated that Chadwicks had 5,000 contacts.¹³

Company promoters in the 1880s and 1890s were able to use the services of professional mailing services. The first British mail order firm, G. Smith Dalby-Welch Limited, founded in 1868, listed 510,000 individual investors in Great Britain in its pamphlet, *Finding the Buyer*, published in 1911.¹⁴ The company compiled and collated *The Investors' Register* and was able to provide companies with lists of investors in different categories of companies, such as theatres and music halls or home railways. They were able to do this as companies were required to provide annual lists of shareholders to the Registrar of Companies and these were available for public inspection. The names on the shareholder lists represented the “modern investing public, its personnel numbered by hundreds of thousands, and representing every class of society except the absolutely destitute.”¹⁵ Also, by the early twentieth century, there were numerous financial pamphlets and books available to investors, with titles such as *The Small Investor*, *Scientific Investment*, *How to Operate Successfully in Stocks*, *The Successful Investor*, *Everyone's Guide to Investment Matters*, and *Women as Investors*.

As early as the 1890s, during a boom period for new issues, stock-broking firms were sending regular pamphlets and circulars to their clients, with suggestions of stocks and shares to buy.¹⁶ For example, a broker's circular was enthusiastic about a planned Guinness share placement, commenting: “the dividend should therefore not

¹¹ See Porter, “A Trusted Guide,” 1. These figures do not include the ‘bucket shop’ newspapers which had largely disappeared by the 1890s. Jefferys, *Trends*, 355.

¹² Press Cuttings File, Guildhall Library, MS19096.

¹³ Jefferys, *Trends*, 318.

¹⁴ London Guildhall, Pamphlet 21957.

¹⁵ Powell, cited in Porter, “A Trusted Guide,” 1.

¹⁶ Jefferys, *Trends*, 357.

be less than 18 per cent, for this year and the earnings should reach 24 per cent.”¹⁷ Brokers were beginning to replace bankers and solicitors as the financial adviser of choice. And, by 1910, there were 19 stock exchanges in the United Kingdom and Ireland where investors could buy shares.¹⁸ Would-be small investors were also helped by the decline in partly-paid shares (removing the risk of further calls), the fall in the typical nominal value of each share to £5, £2 or even less, and the increased number of small “hand to mouth” issues of corporate fixed interest stocks and shares, such as preference shares and debenture stock.¹⁹ London stockbrokers Foster & Braithwaite made a good living by applying for new issues of fixed interest securities on behalf of their growing list of clients.²⁰ The influence of the small investor could also be felt in the pricing of stocks that they favoured. Lowenfeld complained in 1907 that, with the tube and omnibuses in London bringing in crowds from the suburbs, the shares of drapery stores and light-refreshment establishments had rocketed to yield less than could be obtained on first class brewery debentures.²¹

In the United States, early common stock investors were primarily bankers and industrialists. It was not until after the merger boom of 1897 to 1904 that common stocks, and in particular preference shares were issued to fund the large corporations being formed, and began to be held by a broader spectrum of investors, albeit a relatively small number in total.²² Individual investors tended to prefer relatively low risk investments - with bond and preference share issues outweighing common stock issues until the late 1920s. Also, the nominal value of most common stock issues remained relatively high at \$100 – Pennsylvania Railroad was an exception at \$50. In addition, US stocks were typically traded in lots of 100, with the “odd-lot” system catering, more expensively in relative terms, for smaller amounts.²³ Margin accounts were only available for holdings of \$1,000 or more, putting investing in shares out of reach of smaller investors.²⁴

As in the UK, there were investment newspapers, books and pamphlets, such as William Buck Dana’s *Commercial and Financial Chronicle*, Sereno Pratt’s 1903 *The Work of Wall Street* and Edmund Stedman’s 1905 *The New York Stock Exchange*.²⁵ Some, such as Henry Lowenfeld’s *All about Investment* (first edition 1909), were made available in both London and New York. There were financial

¹⁷ Bailey, 2003, cited in Rutterford, “A History,” 123

¹⁸ . Michie, “The London Stock Exchange,” 69.

¹⁹ Lough, *Business Finance* 137. Cottrell, *Industrial Finance*, ch.4.

²⁰ Foster & Braithwaite, 1894-1910, Guildhall Library, MS14269.

²¹ Lowenfeld, “The Investor’s Mind,” 21.

²² Mary O’Sullivan, “Funding New Industries,” 168. Rutterford, “A History,” 118. Neal and Davis also argue that improved regulation and disclosure requirements by the NYSE attracted new investors at that time. See Neal and Davis, “Why did Finance Capitalism,” 140-3.

²³ Hannah, “Divorce,” 7.

²⁴ Smiley and Keen, “Margin Purchases,” 133.

²⁵ Traflet, *A Nation*, 144.

newspapers, with the *Wall Street Journal* founded in 1889 and *Financial World* founded in 1902, and familiarity with the stock market was enhanced by novels about speculation and investment, and by parlour games such as Bull and Bear, and Commerce.²⁶

The use of mailing lists did not flourish in the US, as share registers were – and are still not – in the public domain.²⁷ There was during the period no requirement such as that of the UK's Companies Act 1867 for all limited companies to file an annual list of shareholders each year with the Registrar of Companies, within fourteen days of the annual general meeting.²⁸ However, more informal lists of investors were established in the US: 24 regional stock exchanges allowed investors to invest in local banks, railroads and utilities from early in the nineteenth century.²⁹ By World War I, retail dealers in these securities kept lists of individual investors interested in a specific type of security, such as mortgage bonds, insurance company securities or oil companies.³⁰

2.1 Investor Characteristics

Before World War I, for new, substantial bond issues – \$100 million bond issues were not uncommon – US companies began to turn to relatively accessible groups of individual investors - customers and employees. The first customer ownership campaign recorded in the US was the Central Maine Power Company in 1908. Another example was the Pacific Gas and Electric Company which successfully sold its first issue of preference shares to customers. Emerson Drug Company gave away individual shares with a free sample of Bromo Seltzer when the company first floated. However, sales of stock to customers were still at an early stage by World War I; no more than 100,000 shares were sold by utility companies to customers before 1914. There was also a limited attempt to sell securities to employees. For example, United Drug Company, in March 1914, sent out a circular offering stock to employees. By

²⁶ Sterling, *Encyclopaedia of Journalism*, 227. Robb, “Ladies of the Ticker,” 131, 137.

²⁷ There is still no blanket requirement in the US for shareholder lists to be available to the public, or even to shareholders, except in rare cases under individual state legislation or in two specific cases required by the SEC: tender offers and proxy solicitations. For further information on this, see the Securities and Exchange Commission (SEC) website <http://www.sec.gov/answers/sharehlist.htm> (accessed on January 16, 2015).

²⁸ Lough, *Business Finance*, 37. My thanks to Leslie Hannah for pointing out that access to UK shareholder lists was standard from the Joint Stock Companies Act 1844 onwards.

²⁹ The Exchanges were in Baltimore, Boston, Chicago, Cincinnati, Cleveland, Colorado Springs, Columbus, Detroit, Hartford, Indianapolis, Los Angeles, Louisville, New Orleans, Philadelphia, Pittsburgh, Providence, Richmond, Salt Lake City, San Francisco, Saint Louis, Seattle, Spokane, Washington and Wheeling. See Huebner, *The Stock Market*; Navin and Sears, “*The Rise*.” Wright “Reforming” cites more than 20,000 distinct individuals investing in Pennsylvanian banks and 23,000 distinct individuals in Pennsylvanian turnpike and bridge companies as early as 1821.

³⁰ Lough, *Business Finance*, 316.

World War I, there were 53 companies with employee stock ownership plans (ESOPs) in the US.³¹

Up to World War I, British management preferred profit-sharing schemes to employee share schemes. For example, by 1915, there were 98 profit-sharing schemes compared to 10 employee share schemes and a further 30 with a partial share element.³² Existing shareholders, customers and suppliers were particularly easy to target by mailing and could also be useful in testing the waters for a potential capital raising exercise. For example, Claudius Ash, merchants and manufacturers of mineral teeth and dental materials, in a 1913 prospectus for £50,000 each of 5 ½% preference shares and ordinary shares, stated that they would allot preferentially to existing shareholders and to members of the dental profession. In the UK, the Chairman of Spratts Patent, at the 17th Annual General Meeting in 1903, commented on the fact that a considerable portion of the shareholders were trade customers, who readily subscribed to the new preference issue as soon as it was made.³³

In Britain, the gas industry was the most active sector targeting employees and customers, well before its US counterparts: eight such schemes were set up before 1880.³⁴ Dr Carpenter, Chairman of the South Metropolitan Gas Company, in evidence to the 1918 Select Committee on Gas Undertakings, stated that they reserved a certain proportion of new issues for employees, but employees had to pay the market price to obtain these shares.³⁵ However, the South Metropolitan Gas Company also specifically targeted customers. “In the early days of the gas industry, and for many years afterwards, stock was held by comparatively few people. We felt, however, that it would be an advantage to our business if we could induce our customers, to whom we are necessarily bound in a somewhat different manner from the ordinary commercial undertaking, to take shares in our business; and with whatever new issues of stock we made during the last five-and-twenty or thirty years, we took care to give facilities for the purchase of smaller quantities, and to see that these facilities were brought under the eyes of the small investor. That policy proved very successful.”³⁶

Observers on both sides of the Atlantic also noted, although only anecdotally, the growing importance of women in their share registers. In both countries, spinsters and widows had long had the same property rights as men, and married women acquired individual property rights through nineteenth century legislation. By 1865, in

³¹ “*Employee Stock Purchase Plans*,” 12, FN4. Lough, *Business Finance*, 295. Sears, *The New Place*, 48. Means, “Diffusion,” 567.

³² *Report on Profit-Sharing*, 166.

³³ Letter from George Trollope to Sir Everard Hambro, 5 February 1903, Guildhall, MS19097. Applications for listing, MS18000/Claudius Ash. *The Economist*, March 14 1903, 477.

³⁴ *Report on Profit-Sharing*, 166.

³⁵ *Report on Profit-Sharing*, 20.

³⁶ *Ibid*, 21.

the US, 29 states had Married Women's Property Acts on their statute books; in the UK, there were two Married Women's Property Acts, in 1870 and 1882.³⁷ In the US, Lough commented in 1914 that, for both New Haven Railroad and Pennsylvania Railroad, women represented almost half the shareholder base.³⁸ In the UK, the Chairman of Spratts Patent, at the 1903 annual general meeting, noted that of the 1,482 shareholders there were 585 "ladies, who were generally investors and who were therefore, as a rule, preferable to those who bought the shares merely as a speculation."³⁹ Women also attended annual general meetings and were not afraid of asking critical questions about the share price or dividend performance. "It is said that where women are serious investors, they are generally conscientious shareholders, attending the meetings of companies in which they are interested, taking intelligent interest in reports, and faithful in using their votes."⁴⁰

Indeed, the Americans were impressed by British annual general meetings in general. In comparison, America's (and the world's) largest quoted corporation in 1899, Standard Oil, had less than 100 attending its annual general meeting.⁴¹ The *Wall Street Journal* commented on the fact that British stockholders' meetings were often held in London "in a hall that accommodates two thousand people and it is frequently crowded. There is always a good attendance. The questions are shrewd and searching, and woe betide the director who tries to evade them."

2.2 Shareholder numbers

By the early twentieth century, observers of the stock market were noting a rise in the number of US and UK shareholders. For example, reporting on a *Wall Street Journal* survey of American stockholders in 1901, 1906 and 1910, *The Economist* noted an increase between 1901 and 1910 of 175%, or 125% if allowance were made for new companies and capitalisation increases. The consensus that "[c]apital has to a great extent been democratised" on both sides of the Atlantic increased awareness of the spread of shareholding and led to the first tentative estimates of how many there were.⁴² However, in the US, *overall* shareholder numbers attracted less popular attention than the concentration of ownership among the "robber barons" before 1914

³⁷ Robertson and Yohn, "Women and Money: the United States," 218-9. Rutterford and Maltby, "The Widow."

³⁸ Lough, *Corporation Finance*, 37.

³⁹ *The Economist*, March 14 1903, 477. The greater predilection by male investors compared to female investors to speculate still persists today. See, for example, Barber and O'Dean, "Boys Will Be Boys."

⁴⁰ Cited in Sears, *The New Place*, 150. *The Economist*, March 14 1903. Creighton, "Women and Finance." For further discussion of annual general meetings in the US and the UK 1890 to 1970, see Rutterford, "The Shareholder Voice."

⁴¹ Hannah, "Divorce," 418.

⁴² *The Economist*, August 19 1911, 374.

and, in any case, shareholder registers for companies in non-regulated sectors were mostly unavailable to would-be researchers. Hawkins' later estimate of half a million quoted company shareholders in 1900 and two million by 1920 (a rise from 0.7% to 1.9% of the population) is unsubstantiated.⁴³

Shareholder numbers in the UK showed rapid growth from the mid-nineteenth century onwards. Contemporary government surveys found that shareholders in UK railways numbered 170,000 (0.6% of the population) in 1855 and 640,824 (1.5%) in 1902. Shareholders in quoted domestic banks numbered 81,577 in 1850 and around 260,000 in 1911 (an increase from 0.1% to 0.6% of the population). Writing in 1938, Clapham estimated that, by 1914, there were 900,000 railway shareholders and 300,000 bank shareholders, arguing that the total number of shareholders was close to 1.3 million or 2.8% of the population.⁴⁴ However, there were no contemporary estimates of shareholder numbers in the UK.

Company directors did, though, note their significant shareholder numbers. J. P. Coats had 25,000 shareholders as early as 1896 and, at the first annual general meeting of Lipton, the tea company, floated on the stock market in 1888, the Chairman announced that there had been an enormous number of applications for shares, "as evidenced by the fact that there are now 74,000 shareholders." He believed "that this was the largest number of shareholders of any British industrial company."⁴⁵

Another aspect of the diffusion of shareholding can be viewed as the number of companies with large numbers of shareholders. For example, looking at US company shareholdings in 1900, Hannah finds that of the 50 large non-railway corporations for which he could obtain shareholder details, only one – American Sugar – had more than 10,000 stockholders in total – 9,800 common shareholders and 9,200 preference shareholders. Not even AT&T came into that category, having only 7,535. Only four railroad companies – Pennsylvania, New York Central, Atchison, Topeka & Santa Fe, Union Pacific – and no banks had more than 10,000 shareholders.⁴⁶ In comparison, Hannah estimates that for the UK circa 1900, in addition to large industrial and commercial companies, four British banks and ten British railway companies already had more than 10,000 shareholders.⁴⁷ However, by

⁴³ Hawkins, "Development", 145.

⁴⁴ Cited in Michie, *The London and New York Stock Exchanges*, 118, footnote 67. Hannah, "Divorce," 408.

⁴⁵ *The Economist*, June 4 1888, 847. In fact, the company with the largest number of shareholders in 1900 was a quasi-political foundation established by the Second Zionist Congress in Basel in 1898 which, the following year, attracted more than 100,000 extremely small, subscriptions to its London-registered *Judische Colonialbank Limited*, the Jewish Colonial Trust, which financed Jewish resettlement in Palestine. Rutterford et al "Researching Shareholding," 177.

⁴⁶ Warshow, "The Distribution"; Cox, "*Trends*"; Means, "The Diffusion," 561-600; Hannah, "Divorce," 408-412.

⁴⁷ Hannah, "Divorce," 412.

1913, US corporations with more than 10,000 shareholders included General Electric, United States Steel Corporation, and AT&T.⁴⁸ Lough, writing in 1914, commented that AT&T then had more than 25,000 shareholders, Penn Railroad over 60,000, and United States Steel almost 110,000 shareholders.⁴⁹

Despite the rapid growth in large shareholder registers in the US compared with the UK, the UK maintained a wider spread of companies with relatively large shareholder numbers. For example, Foreman-Peck's and Hannah's analysis of 337 British companies with share capital of £1m or more listed in the 1911 edition of *The Four Shilling Investor Handbook* showed an average of 6,166 holders per company, with a total number of shareholders of 2,081,790. Lough's 1913 survey of a similar number of 327 US quoted companies found only 1,251,468 shareholders, a smaller average of 3,827 per company.⁵⁰

Focusing on the total number of individual ordinary and preference shareholders in US corporations before World War I, Warshow, the corporate treasurer of National Lead, using a sample of 68 companies for which he had shareholder data from 1900 through to 1923, and extrapolating to the population of all public corporations – listed or not – which filed capital-stock tax returns (a total of 326,100 in 1923), estimated 4.4 million stockholders in 1900, 7.4 million in 1910, 7.5 million in 1913, 8.6 million in 1917 and 12.0 million in 1920. The results are summarized in Table 1.

[TABLE 1 NEAR HERE]

Warshow used a method later followed by Berle and Means, as well as Bernheim and Schneider. The method involved dividing IRS statistics on aggregate corporate share capital at par by sampled average shareholdings of a group of corporations (68 in 1900 to 281 in 1923) assuming \$100 nominal share values for all shares. As Warshow himself acknowledged, his sample was of larger than average corporations and, since he believed that larger corporations had smaller average size of holdings, this might have introduced an upward bias in his shareholding estimates. Second, the method used for estimating total capital stock in all corporations was probably accurate for 1923, but may have understated shareholdings in previous years as he estimated total capital stock for earlier years by extrapolating backwards from the 1923 total capital stock estimate, using new issue data for the New York Stock Exchange (NYSE) only.⁵¹ Also, Warshow's calculations of the number of

⁴⁸ Means, "Diffusion," 594.

⁴⁹ Lough, *Corporation Finance*, 7.

⁵⁰ Foreman-Peck and Hannah, "Extreme Divorce", 1224; Lough, *Corporation Finance*, 37.

⁵¹ Warshow, "The Distribution", 27.

shareholdings in any one year were for all corporations; and in 1914, for example, about half of the capital was in closed corporations. So Warshow's estimate is an overestimate of those shareholdings in publicly quoted securities.⁵²

Such estimates of total shareholder numbers are problematic, partly due to which population of companies is being sampled and partly to how the sample relates to the population. For example, the Lough, Foreman-Peck and Hannah, and Clapham figures relate to subsamples of publicly quoted companies, whereas the Warshow estimates relate to all corporations, whether publicly quoted or not. Most observers were interested in publicly quoted companies and so we will concentrate on such estimates. Another major issue relates to the confusion between shareholdings and shareholders. The estimates provided above by Lough, Clapham, Foreman-Peck and Hannah and Warshow are of shareholdings, rather than shareholders, as investors typically hold more than one security in their portfolios. Estimating total shareholder numbers therefore requires an estimate of the average number of holdings per portfolio as well as the number of shareholdings.

Foreman-Peck and Hannah, extrapolating from the data in their sample of 337 quoted companies in 1911, which contain a total of 2,081,790 shareholdings, assume that there were a further 150% of shareholdings in the many other thousands of quoted UK companies, making a total of 5 million shareholdings overall. In order to estimate the number of shareholders rather than shareholdings, this shareholding estimate should be divided by the average number of shares held per investor. Rutterford has estimated that the average number of such holdings was 4.5 for a sample of 508 decedents between 1870 and 1902.⁵³ Using this figure gives an estimate of 1.1 million shareholders in the UK in 1911, or 2.4% of the population.

The estimate of 4.5 holdings per portfolio in the early twentieth century does not necessarily apply to the US for a number of reasons. The US had, on average, higher par value shares than the UK – the UK had many at £1 (\$5) and £10 (\$50) – and investors also had larger average holdings than their UK counterparts. For example, the average nominal shareholding in Warshow's 68 companies sampled in 1913 was \$10,199 (down from \$16,387 in 1900), comparable with a sample of 327 companies by Lough who noted a decline in average shareholding from \$22,000 in 1900 to \$8,500 in 1913. These average shareholdings are substantially higher than Foreman-Peck and Hannah's £912 (\$4,432) for their sample of 337 UK-listed companies in 1911.⁵⁴ Similarly, Rutterford, Green, Owen and Maltby, in a survey of

⁵² Cox, *Trends*, 20-1; Hannah, "Global Corporations in 1910."

⁵³ Rutterford and Sotiropoulos, "How Performative", Table 3.

⁵⁴ Comparing only railway stocks, Foreman-Peck and Hannah include 36 in their sample of 337 companies, with an average shareholding size for these companies of £1,330 (\$6,450) for 1911. Warshow includes 13 railway companies in his 1913 sample of 68 companies, with an average holding size of \$10,983. The average size of shareholding for all US railroads in 1914 was \$13,958. See

223 UK share registers of 47 companies over the period 1870 to 1935, found average shareholdings peaked in the decade of the 1890s at £1,446 (\$7,070), falling to £1,106 (\$5,386) for the 1900s and £689 (\$3,280) for the 1910s.⁵⁵ There is evidence that British investors and their advisers well understood the modern principles of portfolio diversification before 1914⁵⁶ and LSE investors had more choice than NYSE investors.⁵⁷ There is thus an argument for assuming a lower average number of holdings for US investors compared to the 4.5 estimate above for UK investors. For comparative purposes, we assume 3 holdings per US portfolio.

If we return to Warshow's shareholding estimates for pre-World War I, and exclude shareholdings in closed corporations by using Moody's estimate for the par value of all US *quoted* securities in 1907, and an assumed shareholding nominal value of \$9,500 (between Warshow's 1900 and 1913 estimates), we obtain an estimate for 1907 of 2,431,579 US shareholdings. Dividing by 3 gives 810,526 stockholders or 0.9% of the US population. If the divisor used were 4.5, the estimated number of stockholders in the US in 1907 would be smaller at 540,351 or 0.6% of the population.⁵⁸ See the first part of Table 2 for a summary of the main estimates of shareholder numbers pre-World War I.

[TABLE 2 NEAR HERE]

Thus Ott's suggestion that there were fewer stockholders in the US before 1914 than the 300,000-350,000 bondholders is implausible.⁵⁹ Even so, our higher estimate for the US shareholder population in 1907 is barely half the UK level at the turn of the century and about a third of Clapham's (upper bound) UK estimate for 1914. In one respect it clearly exaggerates *domestic* shareholder numbers in that it counts all stocks of US quoted companies listed by Moody as held by Americans, while we know that many were held abroad.⁶⁰ Growth was rapid after the 1907 recession, so it is likely that the number of shareholders in quoted US companies by

Foreman-Peck and Hannah, "Extreme Divorce"; Warshow, "The Distribution"; Bureau of Railway Economics, "Number of Stockholders."

⁵⁵ Rutterford et al., "Who comprised."

⁵⁶ Lowenfeld *Investment an Exact Science*; Goetzmann and Ukhov, "British Investment." Rutterford and Sotiropoulos, "How Performative". Investment trusts, which held portfolios of bonds, issued shares to the public promoting the benefits of diversification as early as 1968. See note 12: Rutterford, "Learning from."

⁵⁷ Domestic railways accounted for most corporate securities on the NYSE until the 1920s, but were already a minority on the LSE by the 1890s; the number of companies traded on the LSE exceeded those on the NYSE for most of the first half of the twentieth century, and the LSE consistently offered more opportunity for international diversification.

⁵⁸ *Moody's Manual*, 1907.

⁵⁹ Ott, *When Wall Street*, pp. 52-3, 57 n.4.

⁶⁰ We do not know what proportion of the approximately \$7b. that foreigners had invested in the US in 1914 was portfolio (rather than direct) investment (though it was more than half), nor what proportion of that was in stock rather than bonds (though much was in bonds), see Wilkins, *History*, 144-174.

1914 had increased, possibly to above a million (thus perhaps equalling UK shareholder numbers in absolute terms) but this would still have constituted only 1% of the US population, and includes foreign holders of US stocks.

Despite the approximations inherent in the above estimates, they point to the UK having more shareholders as a percentage of the population than did the US before World War I. UK investors also had, on average, smaller shareholdings and more holdings per portfolio than did their US counterparts. Only a limited number of US companies, although many were of substantial size, had over 10,000 shareholders. As Lough commented, in 1914, in England “stock is on the whole more widely scattered and held in smaller lots than in this country.”⁶¹

A number of factors can explain this difference. One is the greater choice available to British investors of both domestic and foreign company shares and another the earlier British use of sophisticated marketing techniques to reach potential investors. One additional reason for the difference may be the greater per capital accumulated from past savings of the British compared to the Americans pre World War I. Neymarck, for example, calculated that in 1912 the British and French had each accumulated twice the level of transferable securities per head possessed by Americans.⁶²

3. Between the Wars

The sale of war savings certificates and government bonds during the First World War boosted the 'savings' culture among the population and taught them how to think as investors. The sheer size of the finance needed had led to advertising and publicity being used on a hitherto unprecedented scale to access the savings of the entire population: men and women, girls and boys, young and old, rich and poor, workers and those at leisure, to save as much as they could in the national interest. In Britain, by 1919 there were over 40,000 war savings associations, in workplaces, schools and post offices with a weekly subscribing membership of over 7 million people. 140 million certificates were sold between 1916 and 1918. In the United States, the US Treasury Department's War Loan Organization was responsible for the sale of Liberty bonds, Victory bonds, and War Savings stamps and certificates. A total of 21 million subscribed to the four Liberty Loans, with 85% investing sums of \$50 or \$100. A further 1 billion War Savings Certificates were sold. Women on both sides of the Atlantic were asked to think of themselves as Joan of Arc, as in the advertising posters aimed at American and British women shown in Figure 1.

⁶¹ Lough, *Corporation Finance*, 81.

⁶² Neymarck, “La Statistique”.

[FIGURE 1 NEAR HERE]

This need for finance did not stop in 1918. Americans were then encouraged to “save and invest in restoring Europe to health.”⁶³ In Britain, the War Savings Committee’s work was maintained to “teach and induce people to save who never saved before.” Advertising campaigns played on patriotic fervour. By June 1929, a total of 908 million certificates had been sold in Britain, representing a cash investment of £720 million.⁶⁴ In doing their patriotic duty, on both sides of the Atlantic, these new investors were viewed very differently from the previous hate figures – the “bloated” American and the “insatiable” British bondholders.⁶⁵ These terms derived from a perception in the US that stock market was for speculation rather than investment, and in the UK, from descriptions of rentiers, penalised fiscally in the 1909 so-called “People’s Budget.”

In Britain, Powell, writing in 1920, contrasted the large holdings of a handful of individuals in the share register of the Alamillos Company in 1864 with the much smaller and more numerous individual holdings in 1920s share registers for Liptons, Harrods or Selfridge’s.⁶⁶ In Powell’s study of change over more than 50 years he noted that, in the Selfridge’s department store share registers, the most recent investors included: “a cabinet maker, a gas collector, a clerk, a nurse, a housekeeper, a school mistress, and a housekeeper.” As evidenced by this list, it was recognised that women investors “of all classes” were now saving and investing as they “consolidated for themselves well-paid occupations in quite a number of walks of life to which in earlier times they were strangers.” Women had also been educated to invest through the war loan prospectuses which had been “simply and clearly written, with many women receiving their first lesson in investment from these prospectuses.”⁶⁷ In the US, Sears, referring to a National Industrial Conference Board (NICB) analysis of the top 9 occupations of buyers of more than 50 of a utility’s 7% preferred stock, noted that housewives were by far the largest of these occupational categories, numbering 3,347 out of 7,088.⁶⁸

But there was a major difference between the UK and the US in the interwar years. British investors were not targeted by companies nor by brokers, as in the US, and this difference had a major impact on relative shareholder numbers. Sears, commenting on a 1 million growth in shareholder numbers in the five years to 1928,

⁶³ Meeker, *The Work*, 118-9.

⁶⁴ Fraser, *Women and War Work*, 1918. Cited in Rutterford and Maltby, “That Wide-Eyed Sceptical Curiosity,” 10.

⁶⁵ Meeker, *The Work*, 118-119. *The Economist*, July 12 1919, 42.

⁶⁶ Ott, “From ‘New Proprietorship,’” 1-10; Powell, “The Democratisation,” 243-4.

⁶⁷ Wright, “The State,” 34. Greig and Gibson, “Women and Investment,” 176.

⁶⁸ Sears, *The New Place*, 60.

attributed this to increased interest in investment, the desire to hold shares beneficially, and to customer and employees being targeted as potential investors.⁶⁹

3.1 Customers and Employees

US companies were keen to spread share ownership more widely after World War I to counter growing trade union power. American utilities in particular were under pressure: for example, AT&T was threatened with nationalisation; and electric utilities needed support to maintain monopolies and were particularly keen to keep funding costs low as the rates of return they could earn were regulated. By directly targeting customers, they could save on intermediaries' commissions. Employee shares were also viewed as a less dependent approach to providing for old age than were pensions.⁷⁰ In addition, managers worried that heavy surtaxes imposed particularly by the Revenue Act of 1917 on "rich men" might have "dimmed their appetite for further investment in stocks and bonds." This was particularly the case in the US where it was possible to invest in tax-exempt bonds, real estate and insurance. Tax exempt securities totalled \$4.1 billion at the end of 1921 and \$12.3 billion at the end of 1923. The sheer number of employees and customers of the new giant corporations was a tempting market for capital raisers, and the old "soulless" image of the corporation had been dispelled through familiarity. By 1923, for example, over half of all American employees worked for firms with more than 250 employees.⁷¹

Techniques applied to the selling of War Loan were transferred to AT&T when the Treasury secretary, David Houston, resigned to join AT&T's share distribution subsidiary in 1921.⁷² AT&T employees were targeted, not only to buy shares on their own account, but also to sell to customers. It was felt that customers would be happier to see high profits if they felt they were participating through high dividends.

The telephone employee who assists his friend in acquiring the stock is not only helping to strengthen the credit of the company, but he is aiding his friend to become an investor in a security which is one of the soundest in the market. He is promoting thrift and the habit of safe investment. He is making friends for himself and for his company, and, in reality, is helping to make this country of ours a better one.⁷³

⁶⁹ Sears, *The New Place*, 35-6.

⁷⁰ *Employee Stock Purchase Plans*, 169.

⁷¹ Harris, "The Diffusion," 379. Means, "Diffusion," 586. *Employee Stock Purchase Plans*, 4.

⁷² Ott, "New Proprietorship," 8-9.

⁷³ The marketing system for employees and customers is well described in Devereux, "The Development," 63-9.

AT&T proudly advertised the large number of small shareholders in the firm as early as 1910: “35,510 out of 35,823 hold less than \$1,000 each.”⁷⁴

Other company executives soon followed suit. For example, New York Central Railroad in January 1925 offered 35,000 shares to employees at a price of \$110, ten dollars less than the market price. 68,000 shares were allotted (out of 97,000 subscribed for) and subscriptions for small numbers of shares were favoured. This had the impact of increasing the number of shareholders at one fell swoop from 36,500 in January to 78,000 by April 1925. In an even more spectacular fashion, the number of AT&T stockholders rose from 60,000 in 1914 to 139,448 in 1920 and 469,801 by 1929, an average annual growth rate for the 1920s of 37.4%. The number of new employee share ownership plans in the United States between 1919 and 1927 averaged 33 a year, and, allowing for 89 earlier schemes, reaching a total of 386 by 1929.⁷⁵

For employees, partial payment plans and investment support groups similar to those for war savings societies were common. Employee share schemes also involved some kind of benefit over and above that available to the normal investor, typically a small discount on the purchase price. This helped to overcome labour opposition. In 80 offerings made between 1925 and 1929, the median discount was 4 points lower than the market price, with 36 firms, including AT&T offering more than 4 points discount.⁷⁶ The number of stock sales to customers by public utilities also grew rapidly with 251 new customer plans adopted between 1914 and 1929. By 1929, the National Electric Light Association promoted the fact that it had more than 1 ½ million customer owners in 230 utility companies.⁷⁷

Women became an important element in marketing to both employees and customers. AT&T used its mostly female telephone operators to sell to customers they spoke to. By 1920, AT&T was proudly boasting that it had more women shareholders than men.⁷⁸ Companies used the image of the female shareholder, often depicted as old and helpless, to good effect. “A company is known by the shareholders it keeps.”⁷⁹ Companies often included the number of shareholders in their marketing material.

Who is Swift & Company? Swift & Company is not a one-man or one-family affair. It is a company owned by more than 40,000 people scattered over the face of the globe... Thirteen thousand of them are women. Nearly fourteen thousand of them are

⁷⁴ *The Economist*, 2 April 1910.

⁷⁵ Harris, “The Diffusion,” 25-8. Ott, “From ‘New Proprietorship’,” 11.

⁷⁶ Ott, “From ‘New Proprietorship’,” 21. Davis, *Employee Stock Ownership and the Depression*, 10-11.

⁷⁷ Means, “Diffusion,” 593-6.

⁷⁸ *The Times*, 8 April 1921, 16.

⁷⁹ Ott, “New Proprietorship,” 13.

employees. The average individual holdings are small – about thirty seven shares apiece. These shareholders are the men and women... jealous of the character and reputation of their organization, proud of what it is doing, proud to have a part in supplying to the world such products as Swift's Premium Ham and Bacon, Brookfield Sausage, Silverleaf Brand Pure Lard, Wool Soap, Swift & Company's fresh meats etc.

The coincidence of stock ownership with consumption opened up new vistas of advertising, as shareholders were encouraged to buy their company's products and to act as advertisers to friends and acquaintances. So the "customer owner" became the "owner customer."⁸⁰ Thus, companies were beginning to realise that, not only did customers allow them to reduce their cost of finance, but also gave them access to a captive audience to whom to sell their products. Taking this a step further, some companies realised that women shareholders were a positive bonus. Warshow, in his analysis of shareholder numbers from 1900 to 1923, quotes from a letter from the Secretary of the National Biscuit Company in 1924:

There is only one class of stockholder we are really interested in keeping track of and that is, the number of women stockholders, as they are the real purchasers of this company's product. On December 31, 1923, we had 7,283 women stockholders; virtually 50 per cent of the number of stockholders of the company are women. We have not tabulated the number of shares of stock being held by them; the only thing we are really interested in is to note the constant increase in the number of women stockholders. On January 1, 1914, we had but 4,140 women stockholders, so you can see there has been a handsome increase in nine years in the number of women stockholders.⁸¹

By 1929, *Good Housekeeping* had taken this on board.

The woman shareholder should be given prominence in the classification for some companies, particularly corporations dealing in household products, food stuffs, and clothing, where such companies desire to develop the stockholder-customer idea.

The woman of today is a *shareholder* in the well-managed industries that supply the wants of American life and the needs of her family. Today any director of any great company will tell you what a large shareholder she is. Also *Good Housekeeping's*

⁸⁰ Sears, *The New Place*, 44.

⁸¹ Letter from G.P. Wells, Secretary, to H.T. Warshow, February 29, 1924, cited in H. T. Warshow, "The Distribution," 33, footnote 2.

Editor can show you thousands of letters from women with substantial means who ask advice about their investments.⁸²

In the UK, after World War I, companies were also under pressure to respond to labour unrest but were less willing to set up subsidised employee share ownership schemes. A comprehensive survey of employee profit-sharing, co-partnerships and employee share schemes was commissioned by the British government and the resulting report on Profit-Sharing and Labour Co-Partnership in the United Kingdom was published in 1920. It detailed 182 existing profit-sharing or co-partnership schemes of which 41 involved some form of employee share ownership (including 12 gas company schemes), with 29 new profit-sharing schemes, including 5 employee share schemes set up in 1919 alone.⁸³

At the 1920 Annual General Meeting of the Ebbw Vale Steel, Iron and Coal Company, a “lady shareholder,” Mrs Thompson-Price, put to the Chairman the possibility of the company starting an employee share ownership scheme:

Probably you are aware, as I am myself, that quite a large number of companies – some of them new companies – have during the last year or two arranged for their employees to be paid a certain commission upon their earnings, such commission to be translated at the end of the year into shareholdings, and I think that in some cases the Board or a number of gentlemen who are trustees hold those shares for employees and pay them a certain amount of dividend thereon, to be arranged, of course, by the directors.

The Chairman replied that “anything worth having is worth paying for” and that employees “like everyone else” should buy shares at market price and take their chance.⁸⁴ The Chairman of J Lyons & Co., which owned a chain of restaurants, felt obliged at the 1920 Annual General Meeting to dismiss press comment that waitresses were inadequately paid, and countered “agitators’ claims’ that the shareholder return on capital was too high at 47.5% by saying that it averaged out at a mere 9.4% or 5.4% after tax. All he could come up with to appease public opinion on the capital/labour divide was to announce that both shareholders and staff would be given the same “favourable consideration” if they wanted to apply for the forthcoming issue of preference shares. For firms such as these, no employee shares were offered at a discount. Some employee share schemes were launched after World War I, perhaps in

⁸² Sears, *The New Place*, 61-62.

⁸³ Report on Profit-Sharing, iii, 166. A total of 180 schemes were started in the period up to 1919 but only 182 had survived. There were 36 schemes dating from prior to 1901. The main periods in which such schemes were initiated were 1888-92, 1908-9 and 1912-14. Maltby et al., “The Evidence,” 192-3.

⁸⁴ *The Economist*, June 19 1920, 1354-5.

reaction to the increase in the number of trade union members from two to five million between 1911 to 1919. In 1930, the Ministry of Labour noted 187,000 workers in share-issuing companies but only 37,000 participating in the schemes, with “only a minority of the employees... able, or have wished, to take advantage of the facilities offered.”⁸⁵

The J. Lyons Chairman’s comments about labour and capital were typical of speeches at many UK Annual General Meetings, in particular after a higher rate of income tax was charged on unearned rather than earned income from 1907. The Chairman of Pearson and Knowles Iron Coal and Iron Company felt he spoke for many: “How about £631,186 of wages and £24,400 dividend? This is our own instance as you know and we represent many like companies” (Hear, Hear).⁸⁶ However, Shell Transport and Trading, as early as 1902, made a small concession by changing its shares from £100 to £1 nominal value to encourage the entry of “many agents and servants” of the company onto the share register, with the splitting of the shares allowing placing the shares within reach of “men of moderate means.” This was not pure altruism. The Chairman revealed that the key reason for requiring a larger shareholder base was that the company was constantly having to appeal to the government for facilities and protection around the world, and the larger the body of shareholders, the stronger its negotiating position.⁸⁷

The antipathy between labour and capital increased after World War I, with higher tax rates, as evidenced by the J. Lyons case above, causing resentment. Since income tax was deducted before the dividend was paid, many investors did not understand why they were suffering so. Mrs Ada Gurrin wrote in 1919 to the Secretary of the Prudential Assurance Company: “Is there any chance of getting my pre-war dividend? ... I think your Board should remember that the shares are very carefully held by people with fixed incomes like myself.” Two years later, in 1921, she was openly complaining about how labour as well as capital should share the pain: “As one of the shareholders in your company I am writing to ask you to consider US in this new financial year... as the staff in other firms has to have its salary reduced now food is cheaper why not y[ou]rs, is it fair that long suffering shareholders should go on with a depleted income?.”⁸⁸ This is in line with Cheffins’ argument that one of the causes of an increase in shareholder numbers was the

⁸⁵ Cited in Maltby et al., “The Evidence,” 193.

⁸⁶ Report of Annual General Meeting, *The Economist*, 30 September 1911, 666.

⁸⁷ Report of the Annual General Meeting of Shell Transport & Trading, *the Economist*, 25 January 1902, 19-20.

⁸⁸ Letters dated 7 February 1919 and December 10 1921 from Mrs Ada Gurrin to the Secretary of the Prudential Assurance Company, The Prudential Archive, Shareholders’ correspondence file, 1915-1924. In fact many women with a small income did not realise that they could claim the income tax back. See letter to *The Times* from Mr W. G. Scoty, August 10 1923.

disposal of large holdings by wealth investors subject to high income tax rates on their investment income.⁸⁹

It is worth remembering that a capital levy on wealth of more than £1,000 was in the Labour Party manifesto for both 1919 and 1923 elections, with much concern as to how to reduce the disparities in income and particularly wealth exercising the minds of politicians throughout the 1920s.⁹⁰ It was feared that issuing too many shares to employees would lead to “over capitalisation” and to too much voting power being transferred to employees.⁹¹ To counter these risks, those shares which were issued to employees were limited in number or given as quasi shares. Indeed, only one company in the 1920 Report of the Committee on Profit-Sharing and Labour Co-Partnership allowed employee shareholders to attend the annual general meeting and then only if they held at least £200 nominal value of shares. After the 1920 government-commissioned Report produced by the Committee, there were no more official British investigations into employee share schemes.⁹²

In the United States, although the total number of employee shares represented only 4.26% of the share capital of the 20 large corporations studied by Princeton University in 1926, this was still much a more significant figure than anything in the UK.⁹³

3.2 *Investment trusts*

Another route to increasing the number of shareholders was the investment trust or closed-end fund. These trusts allowed small “investors of moderate means” access to a diversified portfolio. In the United Kingdom, the first investment trust units were offered to investors in 1868. Each £100 unit represented part ownership of an underlying portfolio of eighteen different government and colonial bonds. The issue was successful and followed by a rash of so-called “average investment trust” issues. By 1875, 18 trusts were listed on the London Stock Exchange. There were further booms: between 1887 and 1890, 70 new investment trust companies were floated, with a further 44 between 1905 and 1914. They were considered appropriate for the “confused investor.” One such trust, launched in 1914, was the so-called “People’s Trust.” This was aiming not at investors of moderate means but at the “industrial and working classes.” As Powell commented, this meant that such trusts were available to

⁸⁹ Cheffins, *Corporate Ownership*, 270.

⁹⁰ Dauntton, *Just Taxes* 50, 53, 66. Clay, “The Distribution of Capital in England and Wales, Transactions of the Manchester Statistical Society,” 53-80.

⁹¹ *The Accountant*, 1921.

⁹² For more detail, see the Report on Profit-Sharing and Labour Co-Partnership in the United Kingdom, 1920. For further discussion of the Report, see Maltby et al. “The Evidence for ‘Democratisation’.”

⁹³ Report on Profit-Sharing, 44. Ott, “New Proprietorship,” 70.

all who could save.⁹⁴ The largest boom of all was between 1924 and 1929, with 103 new investment trusts floated on the stock market.

In contrast, the US investment trust market did not develop fully until the mid-1920s; only 18 trusts were formed prior to 1924. However, by mid-1928, the US investment trust market had overtaken that of the UK, with an aggregate capital of \$1.2 billion compared with an equivalent \$1 billion for UK investment trusts. The pace quickened as investment trust issuance rose to a peak in 1929 with more than \$7 billion invested in a single year in 675 investment companies of all types, of which 193 were investment management companies with assets of \$2.7 billion.⁹⁵

US retail brokerages followed in the wake of the mass marketing techniques used for customer and employee share plans in the United States. Although initially slow to capitalise on the number of potential investors, they did catch up, and even used the employee and customer share plans in advertising to increase their customer base. In particular, brokers benefited from selling shares in investment trusts, which offered an infinite supply of new shares to sell. The number of securities affiliates launched by banks grew from 11 in 1920 to 200 in 1929. In 1908, the National City Bank had 83 prospective investors on its books; by 1929, the bank's securities affiliate sold around \$2 billion of securities to 150,000 investors. By the late 1920s, more than 7,000 securities dealers and 30,000 banks competed with each other for each new issue. As the supply of industrial and commercial stock began to dry up, new investment companies were floated to invest in the common stock of other investment trust companies, creating pyramid structures. Bonus shares were paid to promoters and management expenses rocketed. The radio was used to promote investment through such programmes as *Old Counsellor* on NBC. Stock prices were broadcast daily to "even the most remote localities."⁹⁶ Radio programmes, the broadcasting of share prices and brokerage marketing campaigns via radio were much more important in the US where newspapers could not so easily reach the more geographically diffuse US population.⁹⁷

Brokerage houses had women's rooms and banks opened women's departments, staffed by female bank employees. In 1915, one of the first banks representing this trend, the Columbia Trust Company of New York, appointed Virginia D.H. Furman as "Manager" of its new women's department. By the early 1920s, women-run women's departments had taken off. Women's departments were observed throughout the country, although commentators noted regional variations, "with the Mid-west being more supportive than the East, while the South was the

⁹⁴ Powell, "The Democratisation," 247. Jefferys, *Trends*, 377.

⁹⁵ Rutterford, "Learning," 167.

⁹⁶ Ott, "New Proprietorship," 70. Meeker, *The Work*, . 119.

⁹⁷ See Ott, *Proprietorship*, and Traflet, *A Nation*, for more discussion of the use of media in promoting investment in stock market securities.

most resistant.”⁹⁸ A 1928 study by the Investment Research Committee of the Financial Advertising Association credited women with buying between 15 and 20% of new securities issues.⁹⁹

In the UK, there was no major shift from investing in government bonds to investing in corporate bonds, as happened in the US, with no employee or customer schemes as well as a more laissez faire approach from brokers and the LSE. Nor were war bond marketing techniques applied to corporate securities. New issues were still marketed in the press and via circulars but there were no major efforts to set up customer or employee share schemes. Door to door selling or “hawking” did however take place, until banned by the Companies Act 1928.¹⁰⁰ But in the main, brokers continued to act for an élite group of private clients, with firms such as James Capel acting directly or on behalf of bank clients for commission. Regular visits by James Capel partners to the bank Coutts in the West End were used to answer private client queries and save on correspondence. There was little effort at mass marketing. Clients were accepted by the broker rather than the other way round.¹⁰¹

4. After the Crash of 1929

The Crash of 1929 had a terrible impact on Wall Street. Brokerage houses and banks suffered with the almost complete collapse of the investment trust market which had been so profitable for them. The number of individual brokerage accounts fell. Women were reported to have been more emotional than men at their losses and “on the verge of returning to bridge.” Traflet contrasts the ‘masses of women who once crowded brokerage desks in the 1920s’ with their virtual disappearance from the market in the 1930s and 1940s.¹⁰² Wendt, analysing a random sample of 1000 accounts in a Wall Street brokerage house during 1933 to 1938 found that 278 were women, including 102 classified by marital status and the remaining 176 in other occupations. Despite appearances, therefore, women were still active investors after the Crash, fewer in number than their male counterparts but trading in one brokerage house as much as did the men, and professional women were still attracted to stock market investment.¹⁰³

The number of US employee share plans plummeted. In a survey of employee share plans after the Crash, Davis found that the median price of 18 preference shares

⁹⁸ Robertson, “The Principles,” 4-5.

⁹⁹ Ott, “New Proprietorship,” 85.

¹⁰⁰ This did not get rid of the problem, which was eventually dealt with under the Prevention of Fraud (Investment) Act, 1939, effective 1944. See Morgan and Thomas, *The Stock Exchange*, 210.

¹⁰¹ Reed, *A History of James Capel*, 78-9.

¹⁰² Traflet, “Apple Pie.”

¹⁰³ Wendt, *The Classification*.

and 17 common shares which had been the subject of employee plans and active in 1926 was 98 7/8 in 1926, peaked at 115 in 1929 and fell to 14 7/8 by 1932. Of the 50 plans which she studied, 31 had been terminated. Some concessions to the dramatic price falls in many cases were made by corporations, so that most employees who had not bought in the heady years of 1926 to 1928 did not lose out. For example, United Cigar Stores allowed employees to cancel their plans, but many were reluctant to cancel in case they lost their jobs. Most corporations suspended their plans indefinitely although there were six new plans in 1931 and 4 in 1932. The conclusion reached by Davis in 1935 was that employee share plans would in future be limited to senior executives. Corporations would not dare to put their employees (as opposed to their managers) at so much market risk again.¹⁰⁴

US investment trusts also suffered, more so than their UK counterparts, for a number of reasons. US trusts had diversified across US equities, rather than the global fixed interest portfolios of their UK counterparts. US investment trusts had more leverage and more cross-holdings and, with investments valued at market value rather than book value, were more vulnerable to a market downturn. In June 1931, the *Economist* reported that the Standard Statistics index of common stocks of 30 leading American investment trusts showed a fall of no less than 75% from their peak, whereas the Institute of Actuaries index of the shares of 15 leading British investment trusts showed a fall from their peak of only 17%. In Britain, in 1933, the worst year of the bear market, only seven pre-World War I and one third of post-World War I investment trusts passed their dividends.¹⁰⁵ In the US, by 1934, nearly 200 investment management companies had disappeared, and with them the savings of many small investors.

4.1 Shareholder numbers before and after the Crash

The significant rise in US shareholder numbers during the 1920s attracted attention. Both broad brush and more detailed attempts were made to quantify the increase. Sears, for example, referred in 1929 to an additional 1 million stockholders in the previous five years.¹⁰⁶ Warshow, aware of the increase in shareholder numbers in the company of which he was Treasurer, National Lead, made the first serious attempt to estimate total shareholder numbers in 1924. Means – and later Berle and Means – estimated total stockholder numbers at the end of the 1920s, extrapolating from Warshow's 1924 analysis of stockholder registers. Using the same sample of companies which appeared on all Warshow's lists from 1900 onwards, Means

¹⁰⁴ Davis, "Employee Stock Ownership."

¹⁰⁵ *The Economist*, 30 June 1931. Balogh and Doblin, *Report on Investment Trusts in Great Britain*.

¹⁰⁶ Sears, *The New Place*, 35-6.

estimated a figure of 18 million *shareholdings of record* (whom he called “book stockholders”) for 1928, which could be compared with Warshow’s figure of 12 million for 1920. Berle and Means, using the same Warshow methodology, estimated 20 million book stockholders for 1929.¹⁰⁷ See Table 1. Of the 8 million extra book stockholders recorded since 1920, Means estimated that 1 million came from customer share plans set up in the intervening years, and a further 800,000 from employee share plans. Means’ primary concern was also the diffusion of shareholdings; for example, he commented on the switch in holdings from the relatively wealthy to the less well off, particularly in the period 1913 to 1921, also a factor in the UK.¹⁰⁸

However, Means also noted that some growth in shareholder numbers might have been due to an increase in the number of shares held in individual shareholder portfolios. Joseph McCoy, an actuary working in the Treasury department, attempted to avoid this shareholdings versus shareholders problem by estimating the number of shareholders through the dividend income disclosed in corporate and individual tax returns. He estimated 2.4 million individual stockholders in 1924, and 3.3 million by 1927 – equivalent to 2.1% and 2.8% of the population. He also estimated, in 1927, a further 1.3 million individual bondholders.¹⁰⁹ However, since not all investors completed tax returns, this is likely to be an underestimate of the number of shareholders. Berle and Means, using the McCoy approach, estimated “at best, very approximate” shareholder numbers to be in the range of 4 to 6 million for 1927 and 4 to 7 million for 1929. The 1928 estimate is based on 18 million book stockholdings and average holdings per portfolio of between 3 and 4.5; the 1929 estimate appears to be a pure guess.¹¹⁰ See Table 2 for a summary of these shareholder estimates in absolute terms and as a percentage of the population.

In the United States, the Crash of 1929 led to a number of investigations into what had gone wrong. Interest in how many people had been caught up in the stock market was high, in particular whether small investors were to blame for the Crash or were victims.¹¹¹ The Crash also led to a demand, not only for analysis of what had gone wrong, but for improved protection of shareholders, small and large, leading to

¹⁰⁷ Berle and Means, *The Modern Corporation*, Appendix H.

¹⁰⁸ Means, “The Diffusion,” 568-9, 595. Cheffins, *Corporate Ownership*, 270.

¹⁰⁹ McCoy, “The U.S. Legion of Capitalists,” 559-60, 626-8. McCoy, “Sources of Prosperity,” 643-4, 702-3. The Fletcher Committee Report on Banking and Currency in 1934 estimated that there were only 1.5 million individual stockholders at the height of the boom out of a total population of 126 million, a low figure compared to all other estimates.¹⁰⁹

¹¹⁰ Berle and Means, *The Modern Corporation*, Appendix K..

¹¹¹ For small investors’ possible role as victims of the Crash, see Traflet, *A Nation*, 14-15. For their role as possible factors in the Crash, see Traflet, *A Nation*, 21.

the Securities Act of 1933 and the Securities Exchange Act of 1934.¹¹² It was important to find out who these shareholders were. All estimates agreed that the number of shareholders for the early 1930s was higher than at the market peak of 1929. For example, the Standard Statistics survey of 50 companies published in *Printers' Ink* found 4,998,383 holdings in 1933 compared with 3,076,379 in 1929.¹¹³ Kimmel later attributed this unexpected rise to two factors: investors switching from brokerage to own name accounts – a trend also identified by Sears – and investors beginning to buy again when they thought stocks were relatively cheap.¹¹⁴ Bernheim and Schneider, editors of *The Twentieth Century Fund*, for the most part using Berle and Means' methodology and making estimates of growth in numbers from 1927 to 1932 of shareholders in a sample of 69 companies, estimated 9.5 to 11 million shareholders in 1931 (8.3% of the population taking the mid-point) and 10 to 12 million in 1932 (8.8%).¹¹⁵

Detailed pre-World War II estimate of shareholder numbers came from the Temporary National Economic Committee (TNEC), set up to investigate the Crash of 1929 with a remit to examine the concentration of economic power, a recognition that shareholder numbers measured diffusion but not necessarily democratisation. It estimated shareholder numbers using four methods: the first two were refined versions of McCoy's method, varying in how to account for shares held by individuals not included in the tax return data and also for shareholders holding non-dividend paying stock. The third method used the shareholdings of record method of Warshaw and Berle and Means, and estimated average securities held per individual from a sample of 5,000 Federal income tax returns with assumptions being made for those not filing returns or holding non-dividend paying stocks. The fourth estimate was obtained from a sample survey by Elmer Roper of the NYSE. The TNEC in all cases estimated beneficial shareholdings rather than simply shareholdings of record, finding 26 million beneficial shareholdings compared to 24 million shareholdings of record for 1937.¹¹⁶

The four different TNEC methods gave estimates of 6-7, 7-8, 10 and 9 million stockholders respectively. Cox takes likely figures to be around 8-9 million shareholders at the time of the TNEC estimates in 1937 – equivalent to 6.2-7.0% of

¹¹² Other legislation related to the Crash included the Investment Company Act 1940 and the Investment Advisers Act 1940.

¹¹³ This takes no account of whether the number of shares in issue for these companies increased over the period.

¹¹⁴ Kimmel, *Share Ownership*, 129. Graham and Dodd's *Security Analysis*, which encouraged buying of value shares while market prices were low, was first published in 1934.

¹¹⁵ Bernheim and Schneider, *The Securities Markets*.

¹¹⁶ However, although not specified clearly, the TNEC estimates included close companies but does attempt to estimate beneficial shareholdings rather than shareholdings of record. For more discussion of this topic see Cox, *Trends*, 43-5.

the population – and argues that these figures reflect a rise in stockholder numbers which peaked in 1933 followed by a decline to levels of 5 to 6 million – around half the numbers in the early 1930s – a decline which lasted until the mid-to-late 1950s.¹¹⁷

In the UK, the impact of the stock market crash was not as great in the US. The London stock market reached 1929 levels again in 1934, whereas the same was not true for the New York Stock Exchange until 1954. In the UK during 1935 and 1936, for example, there were 209 initial public offerings worth £97.7 million compared with 287 worth £96.7 million for 1928 and 1929.¹¹⁸ There was no inquisition into the causes of the Crash, and no attempted estimates of shareholder numbers until after World War II. It is clear, though, that by this stage there were many more US companies with large numbers of shareholders than in the UK. For example, a post-World War II backward-looking survey by Sargent Florence of 44 companies in 1936 (and still in existence in 1951) found 2 companies in 1936 with more than 10,000 shareholders and an average (median) number of shareholders of 19,644 (10,250). By comparison, a Standard Statistics survey of 50 US corporations, published in 1933, at the peak of the shareholder boom, found 13 with more than 100,000 shareholders and an average (median) of 99,968 (59,131).¹¹⁹

An informal survey in 1929 by *The Economist*, of 18 large and medium-sized UK companies, found that one company had more than 100,000 shareholders and that the average (median) number of shareholders was 27,944 (19,500). The main purpose of *The Economist* survey, though, was to ascertain the impact of the broad distribution of shareholdings - ‘the scattered body of small holders’ - on corporate control. They found that over one third of shareholders owned less than £100 nominal of shares, and over 85% less than £500. Their concern was that such small holdings, probably held as part of a portfolio, led to ‘inertia’ and ‘abuse’, citing examples of companies where changes in capital structure had not been challenged by shareholders, despite the consequence of apathy being a reduction in voting rights for minority shareholders.¹²⁰

5. Post World War II

5.1 Customer relations

In the US, the National Industrial Conference Board conducted a questionnaire survey on shareholder relations in 1950; 217 companies replied, including 99 industrials, 63 utilities and railroads, 37 banks and investment companies, and 18 insurance

¹¹⁷ Cox, *Trends*, 31. See also Cox’s Table 2 on page 33.

¹¹⁸ Chambers, “Financial Dependence,” 28.

¹¹⁹ *The Economist*, “Shareholders and Control,” 30 March 1929, 691. Sargent Florence, *The Logic*, Appendix. *Printers’ Ink*, 25 October 1934.

¹²⁰ *The Economist*, March 30 1929, 692.

companies. The aim behind the survey was to explore whether stockholders could be grouped into unions as were employees into trade unions, and whether stockholder associations could be used to good effect to lobby for such things as lower taxes on dividends via the Investors' League. Many firms had highly developed stockholder relations departments – AT&T's had a staff of 200 – and used their shareholder base to create customer loyalty and an effective lobbying group. Scott Paper Company sent a welcome letter to all new stockholders which included a gift package of their principal products. Borden Company asked new stockholders to complete a descriptive questionnaire. They were able to ascertain that more than 58% of their stockholders were women, and that the most common stockholding was from 10 to 24 shares. They found that one third of their shareholders derived very little income from stocks and bonds and another third derived less than one third of their income from this source, so that the majority of their shareholders had some form of occupation. Of their total of 52,000 shareholders, over half responded to offers of free coffee, and later, cheese.

Many of the companies responding to the questionnaire survey ensured that shareholder meetings included presentations and product displays which would appeal to the individual shareholder. General Mills had this down to a fine art. At a series of regional shareholder meetings, a motion picture was shown, employees and managers were in attendance to answer questions, sampling of Betty Crocker's split pea soup proved popular and there were demonstrations of Tru-Heat irons by local home appliance representatives. Special chiffon cakes were presented to various stockholders. One went to the lady whose birthday fell on the birthday of General Mills, one to the lady stockholder who had held her stock the longest, one to the lady who had travelled furthest for the meeting, and finally one to the longest serving female employee. Such meetings for GM dated back to 1939 (although suspended during the War), with over one third of stockholders in areas visited attending, "with about equal representation of men and women owners."¹²¹ This emphasis on marketing to shareholders marks a reversal of the attitude of US corporations to their shareholders in the 1920s. At that time, corporations targeted customers to become shareholders. By the 1950s, they were targeting shareholders to become customers.

There is no equivalent market research on UK shareholders and how they were used if at all to promote the goods of the companies in which they invested. American firms asked their shareholders whether they wanted the annual report in black and white or in colour, whether they wanted more photographs or less. Anecdotal evidence is provided for the UK by a 1960 advert, in *The Economist*, for Simon-Carves, an engineering company. The advert is in reply to a lady shareholder who had

¹²¹ Watson, "Stockholder Relations."

written in to complain to the Secretary of Simon-Carves: “You build such hideous plants, Don’t send me any more annual reports because I hate the pictures.” The advert goes on to explain how essential the company’s products are to her cutlery, radio, electric lighting, to which “our hideous plants contribute in more ways than space allows us to mention.”¹²²

[FIGURE 2 NEAR HERE]

5.2 Shareholder numbers post World War II

Concern about shareholder numbers in the United Kingdom after World War II was linked to two issues: nationalisation of major British industries, including coal, utilities and transport, and a resurgence of the labour capital debate. On the former issue, Hargreaves Parkinson had long championed the small investor. In his 1930 book entitled *The Small Investor*, he had cited the 1929 survey in *The Economist* which showed that average holdings in major British industrial companies were often £300 or less. He pointed out that large numbers of orders of securities for £25 to £100 were forwarded day by day to London stockbrokers’ offices from bank branches all over the country.¹²³ He then wrote a series of articles for the *Financial News* entitled “Who owns the Railways?” published in 1944. He sampled every tenth shareholder in each of the four remaining railway companies and found 98% of shareholdings were for a nominal value of £5,000 or less, with more than half the dividend warrants – after tax – for £10 or less.¹²⁴ In 1951, he published *Ownership of Industry*, using 1944 and 1945 share registers – as being the latest available – and explored the ownership of the top 30 companies by market capitalisation included in the FT30 share index. Looking at both ordinary and preference shares, totalling £347 million in nominal value, he found a total of 1,112,970 shareholdings with 286,330 preference shareholders having an average nominal holding of £388, and 826,640 ordinary shareholders having an average nominal holding of £286. Parkinson also analysed the railway, coal and electricity companies and found, for a capital of £850 million, a total of 1,047,780 shareholdings, with 618,489 preference shareholders having an average nominal holding of £883, and 429,291 ordinary shareholders having an average nominal holding of £758. Parkinson’s concern was the distribution of ownership and not the characteristics of investors, except whether they were

¹²² *The Economist*, January 1960, 312.

¹²³ Parkinson, *The Small Investor*, 78.

¹²⁴ The British (not Irish) railway companies were consolidated into four companies in 1923. *The Engineer*, “August: The Railways Act, 1921”, September 21, 1921, 231.

“small.”¹²⁵ His anti-nationalisation view was that ownership could not be more democratic if the companies concerned were indeed nationalised.¹²⁶ He argued that having large numbers of small shareholders empowered medium-sized shareholders to influence corporate governance. Sargent Florence viewed this as misguided. Major diffusion of shareholding led, he asserted, to a ‘resolute minority’ of shareholders holding as little as 10% of voting capital could easily take advantage of an ‘indifferent majority’.¹²⁷ Parkinson lost his case against nationalisation, with £2bn of company capital in rail, utilities and coal being replaced by government or government-guaranteed post World War II.¹²⁸

The first formal estimate of the number of UK shareholders was by Ellinger and Carter, and their results were published in 1949 in the *Financial Times*. As the authors argued, ‘It is curious, but no one hitherto has ever inquired how many investors there are.’¹²⁹ As did Parkinson, they counted shareholdings in the FT30 share index – this time using 1941 registers.¹³⁰ The authors found total ordinary shareholdings of 815,977, which compares closely with Parkinson’s estimate of 826,640. However, they went further, trying to estimate not shareholdings but shareholders. By comparing duplication of holdings between shareholders in a set of 40 companies chosen to be of different sizes and industries, and shareholders in two very widely held companies, the authors estimated that there were in total over 10 million shareholdings but only 1.25 million shareholders. The number of shareholders was surprisingly similar to more *ad hoc* estimates made much earlier in the century (see Table 2) and the percentage of the population holding shares was 2.6%, hardly higher than in 1914. The average number of holdings, though, was assumed to be 8, rather higher than the 4.5 estimate for the early 1900s. Indeed, Ellinger and Carter argued that investors had “turned themselves into investment trusts.”¹³¹ They also noted that 47% of the holders were male, 40% female, 8% joint holders and 5 per cent charities, nominees, and corporate. Women were more important investors in certain types of companies: “which are household names or which are reputed to be very safe, and low in, for example, mining concerns. The female investor is less venturesome than the male.”¹³² As Sargent Florence commented, “to judge from British evidence, nearly half of them [shareholders] are women, many of them shy (without reason) of

¹²⁵ Parkinson, “Who Owns the Railways”; Parkinson, *Ownership of Industry*, 1951; Parkinson, “Who Owns the Railways?,” 14, 61.

¹²⁶ Ellinger and Carter, “The Owners of Industry,” 6.

¹²⁷ Sargent Florence, *The Logic of Business and Industry*, 195.

¹²⁸ Morgan and Thomas, *The Stock Exchange*, 198.

¹²⁹ Ellinger and Carter, “The Anatomy,” *Financial Times*, March 1, 1949, 2.

¹³⁰ Sargent Florence, *The Logic of Business and Industry*, 156.

¹³¹ Ellinger and Carter, “The Owners of Industry”; *Financial Times*, February 28, 1949, 4.

¹³² Ellinger and Carter, “How many Investors are There?,” *Financial Times*, 2 March, 1949, 4.

business.”¹³³ However, Ellinger and Carter did not find evidence of the “democratisation of investment,” rather the opposite, describing the investor:

to be found in retirement in the pleasanter climes of Southern and South-Western England and North Wales. This is the section of the public reviled by class haters, discriminated against fiscally, and given inadequate compensation on nationalisation.¹³⁴

They showed, as had *The Economist* in 1929 and Hargreaves Parkinson in 1944, that most investors had holdings of £500 or less, making them vulnerable to nationalisation. At the time of the *Financial Times* survey, railway nationalisation had already taken place, with more to come. Such investors, argued Ellinger and Carter, were wide open to the one by one tactics of government: ‘their Railway Stocks are taken. Well, they still have their Electricity Stocks and more. Then their Electricity stocks go, but there is still Steel. After Steel, there will be Chemicals, Breweries, Insurance and others.’¹³⁵

After nationalisation, the debate in the UK as to the number of shareholders continued, this time as part of the labour capital divide. It rose to a crescendo in the late 1950s after the market had tripled in value between 1948 and 1957, and after a succession of good years for company profits and dividends. The growth in the industrial and commercial sector more than compensated for the loss of company securities through nationalisation. Between 1946 and 1962, the nominal value of shares in that sector rose from £1,629 million to £5,930 million.¹³⁶ In fact, companies appeared to make large profits partly because dividends were declared as a percentage of nominal and not market value. Inflation after World War II had also led governments to impose wage controls on labour and, encouraged by the trade unions, dividend controls on share-owning capitalists.¹³⁷ A pamphlet entitled *The Poor Man’s Guide to the Stock Exchange*, published by the Labour Research Department, was sceptical of the wider ownership statistics:

A vigorous attempt is now being made to persuade everyone to believe that British industry is really owned by a mass of small investors. Some of the biggest companies have published lists of their shareholders – details I mean – for example, in 1958 Imperial Chemical Industries had 261,663 shareholders with an average holding of

¹³³ Sargent Florence, *The Logic*, 179.

¹³⁴ Ellinger and Carter, “How Many Investors are There?”, *Financial Times*, 2 March, 1949, 4.

¹³⁵ Ellinger and Carter, “The Owners of Industry,” 6.

¹³⁶ Morgan and Thomas, *The Stock Exchange*, 283.

¹³⁷ Rutterford, “From Dividend Yield,” 126-7.

£551 and 93,000 shareholders in Woolworth, F.W. & Co. with an average of £172 each.¹³⁸

The number and characteristics of shareholders had again become a political issue. In 1958, the president of Aims for Industry, Sir Ian Lyle, announced that Tate & Lyle and 20 other companies would set up shops to sell shares at their production sites to attract worker shareholders. The Wider Share Ownership Council, supported by a number of Conservative MPs, was also lobbying for bearer shares – to avoid onerous stamp duty on small trades. However, the threat of further nationalisations was clearly a factor behind the campaign. The Chairman of Rugby Portland Cement, in his annual general meeting speech in 1960, followed the Hargreaves Parkinson line that wider share ownership was a superior form of nationalisation, with public ownership of shares giving people access to retained profits as well as dividends.¹³⁹

In the United States, post World-War II, the market did not recover its 1929 value until 1954, but this was twice the value of 1945. Attempts to revive employee share plans had proved unsuccessful. In a 1953 report, the National Industrial Conference Board found only 68 formal plans for selling shares to employees of which only 28 were active. All but two were for common stock whereas 1920s schemes had been evenly split between preference and common stocks. AT&T revived its scheme, closed in 1929, in 1947 and in 1949 International Harvester revived the scheme it had opened in 1930 and closed in 1931. The author of the report was gloomy on further growth in the sector. She believed that companies had been burned by having to compensate employees for losses incurred after the 1929 crash and, although they saw such plans as helping to shield employees from rising inflation, they would stick to senior executive plans in the future.¹⁴⁰

However, the New York Stock Exchange, suffering from poor business since the 1930s, was keen to encourage new customers for its members. Another reason was to provide a capitalist riposte to the communist threat of the Cold War.¹⁴¹ But, before beginning a campaign to attract more individuals to invest in the American economy, the NYSE felt the need to discover who the existing investors were and how many of them there were.¹⁴² Since there had been no investigations into shareholder numbers since 1937, in 1952 the NYSE commissioned Kimmel of the Brookings Institution to conduct a detailed survey of share ownership, of how many investors in publicly owned companies there were, who they were and where they

¹³⁸ Labour Research Department, 1959 citing research by Gordon Cummings, published in *The Times*, "How Many Small Shareholders?," November 13 1958, 18.

¹³⁹ *The Times*, November 13, 1958, 18; *The Times*, April 25, 1960, 18.

¹⁴⁰ Bower, *Stock Ownership Plans for Workers*, 5-7.

¹⁴¹ Traflet, *A Nation*, 11, 68-9.

¹⁴² Traflet, *A Nation*, 74.

lived. This involved asking for information on shareholdings in 5,002 corporations – those listed on the twenty organized stock exchanges (including the NYSE) and the New York Curb Exchange as well as unlisted banks, investment and other companies.¹⁴³ One in ten shareholdings was sampled from information provided on 3,954 share issues, representing around 25% of all publicly owned stocks as listed in Moody's Manual.¹⁴⁴ This yielded 20.3 million shareholdings of record (from 25.2 beneficial shareholdings), which Kimmel estimated implied a total of 30.3 million shareholdings of record for all stock issues which had a significant public interest.¹⁴⁵ However, the number of shareholders – rather than shareholdings - was estimated by interviewing a sample of one in ten 5000 family spending units (equivalent to 15,552 people) and asking how many individuals in each household were shareholders. This yielded an estimate of 6.49 million adult individual shareholders in 1951, equivalent to only 4.2% of the population, a 50% drop from the early 1930s. The average number of share issues held by each investor was 4.1.¹⁴⁶ This was the first serious estimate of shareholder numbers in the US since the TNEC investigation, but the Brookings Report estimates was more comprehensive, detailed and more accurate than those produced by the TNEC.

After the euphoric estimates of the late 1920s and early 1930s, the Brookings Report was a disappointment to the NYSE, showing half the number of shareholders expected.¹⁴⁷ But the big news from the definitive Kimmel survey was that there were almost as many women investors as men, and that they had slightly more holdings than men. The NYSE had no clear idea as to why this was so, speculating that wives had inherited shares from their husbands or that they held shares separately for tax reasons.¹⁴⁸ “But, whatever the reason, this fact was clear.”¹⁴⁹ 32% of investors were housewives, the largest socio-economic group. And there was little evidence of ‘democratisation’: 69% of shareholders were housewives or professionals.¹⁵⁰

The relatively low stockholder numbers in the Brookings Institution report led the NYSE to initiate a major advertising campaign, aimed at individual investors and called Own Your Own Share of American Business, which ran from 1954 to 1969.

¹⁴³ The total of 5,002 was made up of 1,074 corporations with shares listed on the NYSE, 577 on the New York Curb Exchange, 673 on the other 19 organised stock exchanges, 373 unlisted banks, 149 unlisted investment companies, and 2,147 other unlisted companies. Kimmel, *Stock Ownership*, 4-5.

¹⁴⁴ The 3,954 issues were made up of 2,932 common stock issues and 1,022 preference share issues. Kimmel, *Stock Ownership*, 8.

¹⁴⁵ The estimate of 30.3 million shareholdings was based on the 3,954 issue samplings, plus compiled figures for the number of shareholdings in 1,781 further issues, plus estimates for a further 10,920 issues. This makes a total of 16,655 issues, the total included in Moody's Manual for 1950. Kimmel, *Stock Ownership*, 8, Section VI.

¹⁴⁶ Kimmel, *Stock Ownership*, 89,110.

¹⁴⁷ Traflet, “Apple Pie,” 6.

¹⁴⁸ Rutterford, “Gross or Net?,” 45.

¹⁴⁹ Traflet, “Apple Pie,” 6.

¹⁵⁰ Kimmel, *Stock Ownership*, 98.

This, aided by a series of stock splits which made round lots affordable for small investors, had a dramatic effect on stockholder numbers. These went from 6.5 million in 1952 (4.2% of the population) to 12.5 million in 1959, 20 million in 1965 and 30 million (14.6% of the population) in 1970. As a percentage of the population, individual shareholders overtook the 8% peak in the 1930s by 1960. In absolute terms, by 1970, there were three times as many direct individual shareholders as there had been in 1929. But one major difference was that these modern investors bought and held, rather than traded on margin. Turnover was only 13% in 1952 compared with 100% or more in 1929.¹⁵¹

In the UK, there were no more formal surveys of shareholder numbers until 1965, when the Stock Exchange began estimating the shareholder population. However, a Labour Party publication cited an Inland Revenue survey of incomes over £135 per annum in 1949/50 and found the number “enjoying” interest and dividends was no larger than 1.5 million or 3.0% of the population.¹⁵² In a 1958 book entitled *The Challenge of Employee Shareholding: How to Close the Gap between Capital and Labour*, Copeman cited MacRae’s estimates of the total number of shareholders being between 1.1 to 1.35 million in total (2.1% to 2.6% of the population), but this included holders of fixed interest government debt and nationalisation securities.¹⁵³ The number of shareholders had again become a political issue by remaining steadfastly at 2 to 3% of the population, no higher than in 1914. As markets rose in the UK as in the US, so shareholder numbers rose. A Gallup poll in 1960 estimated that there were then 3.1 million shareholders (5.9% of the population). Two Stock Exchange surveys in 1965 and 1968 estimated the shareholder population in the UK to be 1.8 million in 1965 and 2.3 million in 1968 (3.3% and 4.1% respectively).¹⁵⁴ It was not until the arrival of Margaret Thatcher as Prime Minister in 1979, and her programme of privatisation, that direct shareholder numbers in the UK began to approach post-war US levels. Until that time, the shareholding population remained static, adding shares to existing portfolios. Vernon, writing in 1973, found, from a sample survey of an unnamed “blue chip” company with more than 100,000 individual shareholders, that 52% of respondents held more than 4 securities in their portfolios. The Brookings Report had found, from a much larger sample, that 80% of respondents in the US held only 1 to 4 securities. In the US, the average number of holdings was 4.1; the median for the small UK sample was 21.¹⁵⁵ The average

¹⁵¹ Traflet, “Apple Pie,” 11; Cox, *Trends*, 3. Traflet, *A Nation*, 153.

¹⁵² “The Poor Man’s Guide.” It also reported that in 1955-6, “a mere” 19,000 surtax payers (income above £2,000 per annum) received 41% of the total investment income of surtax payers.

¹⁵³ Labour Research Department, *The Poor Man’s Guide*; Copeman, *The Challenge*, 39-40.

¹⁵⁴ Cited in Vernon, Middleton and Harper, *Who Owns*, 18; London Stock Exchange Fact Books, 1965 and 1968.

¹⁵⁵ Vernon, Middleton, and Harper, *Who Owns*, 104; Kimmel, *Stock Ownership*, 110, 127.

individual shareholding in the UK, in value terms, was also smaller: £860 in the UK in 1963 (\$2,804) compared with \$6,500 in the US in 1952.¹⁵⁶ UK investor portfolios still included more securities held in smaller amounts than did their US counterparts.

The NYSE may not have expected there to be more women investors than men, but Kimmel in the Brookings Report, is candid on this point. He found the fact that there were 7.03 million male stockholdings of record as opposed to 7.62 million female stockholdings of record “not unexpected” and argued that a partial explanation for female dominance was the AT&T stockholder register. This single register accounted for one half of the “excess” of women in the figures. For preference shares, there was an even greater female dominance: 543,800 male and 812,100 female shareholdings of record. The average value of male and female holdings was \$4,290 for men and \$3,558 for women for ordinary shares and \$2,973 for men and \$2,550 for women for preference shares.¹⁵⁷ So, although the NYSE did not expect female dominance, it was common knowledge to others. *Good Housekeeping* had already referred to “what a large shareholder she is” in the 1920s. In 1948, Elizabeth Kidd, in the foreword to her book, *Women Never Go Broke*, could write:

With so much of the nation’s wealth falling, by default and demise, into the dainty little fingers of females, this could be serious. In fact it is. Visualize for yourself 80% of the private life insurance, 70% of estates, 50% of the privately owned stock of corporations, 48% of railway and utility holdings, 40% of the nation’s homes, 74% of suburban homes, 66% of mutual savings bank accounts, to say nothing of about 104 ½ billion dollars’ annual spending money, all held in this fragile but febrile grasp.¹⁵⁸

Also, post-World War II, brokers and companies were well aware of their female investor base. In 1950, three years before the NYSE even started its Own Your Share in American Business marketing campaign, Merrill Lynch held ladies-only investment seminars in 62 different cities, attracting an audience of over 30,000 women.¹⁵⁹ Companies, particularly those selling consumer products, recognised that women shareholders were a positive attribute.

In the US, as shareholder numbers and stock market prices rose, there was some attempt by US corporations to revive the ‘people’s capitalism’ argument, as happened in the UK. This was helped by detailed surveys produced after the Brookings Report in the 1950s and 1960s.¹⁶⁰ AT&T had, by mid-twentieth century,

¹⁵⁶ Vernon, Middleton and Harper, *Who Owns*, 16; Kimmel, *Stock Ownership*, 13-14.

¹⁵⁷ Kimmel, *Stock Ownership*, 16-17.

¹⁵⁸ Kidd, *Women Never Go Broke*, Foreword.

¹⁵⁹ Traflet, *A Nation*, 155.

¹⁶⁰ Cox, *Trends*.

over 1 million shareholders and 20,000 investors attending the AGM.¹⁶¹ Somehow, with numbers of shareholders, the world must be a better, more democratic place. US corporations began to peddle this line in their advertisements, as they had done in the 1920s. General Electric stated: "People's Capitalism: the 376,000 owners with savings invested in General Electric are typical of America, where nearly every citizen is a capitalist."¹⁶² A.D.H. Kaplan wrote: "The number of stockholders now equals or exceeds the number of employees in many large American corporations. The effect of prevailing tax rates on inheritance and income is toward progressive diffusion of the personal capital holdings in American corporations."¹⁶³ High tax rates post-World War II (as post-World War I) had driven high income earners to tax-exempt securities, requiring lower taxed individuals to take their place. However, this diffusion did not lead to shareholder control, as Perlo demonstrated.¹⁶⁴ Institutional investors were the major acquirers of new issues from the 1950s onwards, on both sides of the Atlantic.¹⁶⁵

6. Conclusions

This paper has explored the trends in – and contemporary estimates of the extent of – ‘democratisation’ and ‘diffusion’ of shareholding from the late nineteenth century to 1970 in both the UK and the US. It has identified three key periods for this process: pre-World War I, between the Wars, and post-World War II. Before World War I, shareholdings in the UK were more diffuse for a larger number of quoted companies, helped by marketing, new issue booms, and securities suited to small investors. As a result, the UK had more individual shareholders as a percentage of the population than did the US on the cusp of World War I. There were no formal attempts to quantify shareholder numbers at the time, though company chairmen and periodicals noted the upward trend and comparisons of similar-sized samples of UK and US companies’ shareholder numbers show a larger UK shareholder base as a percentage of the population.

After World War I, the US overtook the UK in shareholder numbers, peaking in 1932 at a contemporary estimate of 10 million (8% of the population) fuelled by an increase in customer and employee shareholders, the switch of the wealthy after World War I towards tax-exempt securities, marketing strategies linked to sales techniques which had proved successful with Liberty Bonds, and also to the rise of

¹⁶¹ Rutterford, "The Shareholder Voice," 134.

¹⁶² Perlo, "People's Capitalism," 334.

¹⁶³ Kaplan, *Big Enterprise*, 178-9. Cited in Perlo, "People's Capitalism," 334.

¹⁶⁴ *Ibid.*

¹⁶⁵ For discussion of the rise of institutional investors, see Sargent Forence, *The Logic of Business and Industry*, for the UK and Traflet, *A Nation*, for the US.

securities houses marketing shares in investment trusts. Numerous attempts were made to measure the extent of this 'democratisation' of the 1920s with differing and flawed methodologies which nevertheless all pointed to US shareholder numbers peaking in the early 1930s. In the late 1930s, the US Temporary National Economic Committee tried four different methods to quantify the importance of small investors in corporate America, in order to better regulate the investment industry. The US democratisation process suffered a reversal from the early 1930s onwards, falling to around 4% of the population by the 1950s, when the NYSE sponsored a detailed and accurate study of how many investors there actually were. A rising stock market – the market reached its 1929 level in 1954 and carried on rising – and a very successful NYSE-led campaign saw shareholder numbers increasing rapidly thereafter, equalling 1933 levels by the 1960s and reaching 30 million – 15% of the population – by 1970. From the 1960s onwards, there were frequent surveys of stockholder numbers and characteristics, by the NYSE to measure progress and by companies themselves in order better understand their shareholder base.

In the UK, after World War I, companies did not feel obliged to encourage customers and employees to invest to the same extent as the US, and share investment remained the domain of the privileged few. The London Stock Exchange and stockbrokers did not aggressively market securities investment. While there was no major boom and bust in the 1920s in the UK, forced sales of dollar securities during World War I, nationalisations of overseas companies whose shares were listed on the London Stock Exchange between the wars and nationalisations (as a form of government-led financial repression) after World War II reduced the size of the stock market by as much as one third, significantly reducing the potential size of the investor population. It was in the face of the major nationalisation programme post-World War II that the first formal attempt at measuring shareholder numbers was conducted in 1949, and estimates of average shareholding size were calculated in order to promote share ownership by all as an alternative to nationalisation. There was no equivalent financial repression in the US. Even after a bull run in the 1950s and 1960s and a half-hearted Wider Share Ownership campaign, UK direct shareholder numbers never exceeded 2 to 3 million – at most 4 to 5 per cent of the population by 1970. A smaller élite number of UK investors bought and held more shares in smaller amounts than did their US counterparts. It was not until the election of Margaret Thatcher in 1979 and the introduction of her privatisation programme that shareholder numbers (in percentage terms) reached US levels.

This comparative study of the democratisation patterns in the UK and the US has also allowed us to discuss important factors going beyond the current literature that emphasizes common law origins and real income growth. Both countries experienced shareholder diffusion – in terms of the size of the investor population –

although the Crash of 1929 severely impacted US shareholder numbers from the early 1930s to the late 1950s. However, the more aggressive marketing strategies of US companies and the NYSE, highlighted by Ott and Traflet, increased shareholder numbers in the US in the 1920s and after the 1950s. In the US, the post World War II anti-communist perspective perfectly suited the ‘small capitalist’ marketing stance of the NYSE. In the UK, shareholder numbers were depressed by the lack of aggressive marketing campaigns of companies (until the 1960s), stockbrokers, and the LSE, and also by financial repression, in particular, the nationalisations of the 1940s and 1950s.

However, there are interesting similarities. Corporate governance and regulation were affected on both sides of the Atlantic by increasing numbers of investors. Substantially increased shareholder regulation in the US was introduced after small investors suffered in the Crash of 1929, and shareholder numbers were used as marketing tools for companies; as political ammunition against the break-up of the major US utilities, such as AT&T; and in the anti-nationalisation campaign in the UK during and after WWII. Another similarity was the rise in importance of female investors. The Anglo Saxon legal framework can perhaps explain the importance of women as investors on both sides of the Atlantic, enfranchised throughout this period to buy shares in their own names, attend and vote at Annual General meetings. There are other factors, though, to do with unearned income, inheritance, and tax laws. And yet, it is only towards the end of this period that the importance of women in the shareholding population became clear, highlighted in the Kimmel Report in the US in the 1950s and by Edlinger and Carter in the UK in the 1940s. Shareholder diffusion can partly be explained by the increasing importance of women investors.

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- The Economist*
- The Engineer*
- The Times*

Table 1
Warshow and related estimates of US shareholdings

Year	Study	Estimate (millions)	% change	Index (1900 = 100)
1900	Warshow (1924)	4.4		100
1910	Warshow (1924)	7.4	68.2%	168
1913	Warshow (1924)	7.5	1.4%	170
1917	Warshow (1924)	8.6	14.7%	195
1920	Warshow (1924)	12.0	39.5%	273
1923	Warshow (1924)	14.4	20.0%	327
1927	Bernheim and Schneider (1935)	17.0	18.1%	386
1928	Berle and Means (1932)	18.0	5.9%	409
1929	Berle and Means (1932)	20.0	11.1%	455

Table 2

Estimates of US and UK shareholders, numbers and as % of total population.

Year	Study	Number (millions)		% Population	
		UK	US	UK	US
1895 to WWI					
1901	Register of Investors	0.68		1.6%	
1907	Moodies/Warshaw		0.81		0.9%
1911	Foreman-Peck and Hannah (2012)	1.11		2.4%	
Post WWI to 1929					
Crash					
1924	McCoy (1927)		2.4		2.1%
1927	McCoy (1930)		3.3		2.8%
1927	Berle and Means (1932)		4.0-6.0		3.4%-5.0%
1929	Berle and Means (1932)		4.0-7.0		3.4%-5.8%
Post Crash pre-WWII					
1927	Bernheim and Schneider (1935)		5.0-6.0		4.2%-5.0%
1929	Bernheim and Schneider (1935)		7.0-9.0		5.7%-7.4%
1932	Bernheim and Schneider (1935)		10.0-12.0		8.0%-9.6%
1937	TNEC (1940)/Cox (1963)		8.00-9.00		6.2%-7.0%
WWII to 1970					
1941	Ellinger and Carter (1949)	1.25		2.6%	
1952	NYSE/Kimmel (1952)		6.49		4.2%
1959	NYSE (Traflet, 2013)		12.5		7.0%
1960	Gallup (Vernon et al., 1973)	3.1		5.9%	
1965	NYSE (Traflet, 2013)		20.1		10.4%
1965	LSE (1965)/BMRB* adjusted	1.8		3.3%	
1968	LSE (1968)/BMRB* adjusted	2.3		4.1%	
1970	NYSE (Traflet, 2013)		30.9		15.0%

*British Market Research Board

Figure 1

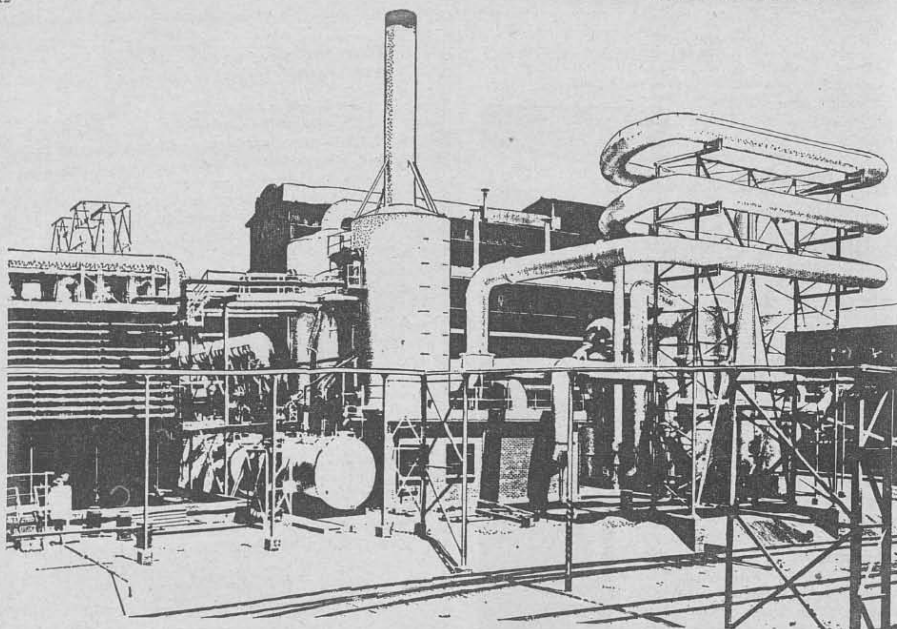
Joan of Arc marketing literature encouraging women to invest in government securities during World War I



Figure 2
Utility plant drawing

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THE ECONOMIST JANUARY 23, 1960



"YOU BUILD SUCH HIDEOUS PLANTS"

wrote a lady shareholder to the Secretary of Simon-Carves. "Don't send me any more annual reports because I hate the pictures."
"Dear Madam," the Secretary could have replied, "somebody must build collieries and coal washeries and coke ovens and gas and chemical and fertiliser plants and power stations and what not, so that you can have your car and cutlery (or anything else with steel in it) and your radio and electric light (and anything else to do with power stations) and your gas cooker (if your kitchen isn't all-electric) and your food and clothes

(which depend a good deal on fertilisers and chemicals) and a lot of other things that make up your standard of living, to which our hideous plants contribute in more ways than space allows us to mention."
"In short, Madam," the Secretary might have concluded, "we render many essential services to many essential industries, so pray accept your dividends in the certainty that if we did not build our hideous plants someone else would build them and perhaps not as well as we do."

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LIMITED



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and other companies
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